



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 16, 2003

H.R. 21

Unlawful Internet Gambling Funding Prohibition Act

As reported by the House Committee on the Judiciary on May 14, 2003

SUMMARY

H.R. 21 would prohibit gambling businesses from accepting credit cards, checks, or other bank instruments from gamblers who illegally bet over the Internet. The bill also would require financial institutions to take steps to identify and block gambling-related transactions that are transmitted through their payment systems. The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the National Credit Union Administration (NCUA) would enforce the provisions of H.R. 21 as they apply to financial institutions.

CBO estimates that implementing this legislation would result in no significant cost to the federal government. The bill could affect direct spending and revenues, but CBO estimates that any impact on direct spending and revenues would not be significant.

H.R. 21 would create no new intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. The bill would impose a private-sector mandate, but CBO estimates that the direct costs of the mandate would fall well below the annual threshold established in UMRA (\$117 million in 2003, adjusted annually for inflation) in any of the next five years.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that the government would incur no significant costs under H.R. 21. CBO estimates that implementing H.R. 21 would increase administrative costs of the Department of Justice, but any such costs would be negligible. The bill also would have a small effect on the operating costs of the FDIC and the Federal Reserve System. Finally, the bill would have a negligible effect on the collection and spending of criminal penalties.

BASIS OF ESTIMATE

The bill would have only minor budgetary effects, as described below.

Spending Subject to Appropriation

Because H.R. 21 would establish new federal crimes relating to Internet gambling, the federal government would be able to pursue cases that it otherwise would not be able to prosecute. CBO expects, however, that most cases would be pursued under existing state laws. Therefore, we estimate that any increase in federal costs for law enforcement, court proceedings, or prison operations would not be significant. Any such additional costs would be subject to the availability of appropriated funds.

H.R. 21 would require the Department of the Treasury to submit an annual report on deliberations with other countries on issues related to Internet gambling. CBO estimates that preparing and completing the report would cost less than \$100,000 a year, subject to the availability of appropriated funds.

Direct Spending and Revenues

The NCUA, the OTS, and the OCC charge fees to cover all their administrative costs; therefore, any additional spending by those agencies to implement the bill would have no net budgetary effect. That is not the case with the FDIC, however, which uses deposit insurance premiums paid by banks to cover the expenses it incurs to supervise state-chartered institutions. (Under current law, CBO estimates that the vast majority of thrift institutions insured by the FDIC would not pay any premiums for most of the 2004-2013 period.)

The bill would cause a small increase in FDIC spending but would not affect its premium income. In total, CBO estimates that H.R. 21 would increase direct spending and offsetting receipts of the NCUA, OTS, OCC, and FDIC by less than \$500,000 a year over the 2004-2013 period.

Budgetary effects on the Federal Reserve are recorded as changes in revenues (governmental receipts). Based on information from the Federal Reserve, CBO estimates that enacting H.R. 21 would reduce such revenues by less than \$500,000 a year.

Because those prosecuted and convicted under the bill could be subject to criminal fines, the federal government might collect additional fines if the bill is enacted. Collections of such fines are recorded in the budget as governmental receipts (i.e., revenues), which are

deposited in the Crime Victims Fund and spent in subsequent years. Any additional collections are likely to be negligible because of the small number of cases involved. Because any increase in direct spending would equal the amount of fines collected (with a lag of one year or more), the additional direct spending also would be negligible.

ESTIMATED IMPACT ON STATE AND LOCAL GOVERNMENTS

Although H.R. 21 would prohibit gambling businesses from accepting credit card payments and other bank instruments from gamblers who bet illegally over the Internet, the bill would not create a new intergovernmental mandate as defined in UMRA. Under current federal and state law, gambling businesses are generally prohibited from accepting bets or wagers over the Internet. Thus, H.R. 21 does not contain a new mandate relative to current law and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 21 would impose a new federal mandate on the private sector. The bill would require designated payment systems to establish policies and procedures designed to identify and prevent transactions in connection with unlawful Internet gambling. Designated payment systems are defined in the bill to include any system utilized by businesses such as creditors, credit card issuers, or financial institutions to effect a credit transaction, an electronic fund transfer, or other transfer of funds. Information provided by representatives of the financial services industry indicates that such transactions can currently be identified through the use of codes. Most financial institutions are currently able to identify and block restricted transactions by using the coding system. Thus, CBO estimates that the private sector's cost to comply with the mandate would be small. There also could be direct savings to those entities subject to the mandate as the bill limits their liability arising from their compliance with the requirement. CBO estimates that the total direct costs for private-sector mandates in this bill would fall well below the annual threshold established in UMRA (\$117 million in 2003, adjusted annually for inflation).

Although section 3 would prohibit gambling businesses from accepting credit card payments and other bank instruments from gamblers who bet illegally over the Internet, those provisions would not create a new private-sector mandate as defined in UMRA. Under current federal and state law, gambling businesses are generally prohibited from accepting bets or wagers over the Internet. Thus, those provisions do not contain a new mandate relative to current law.

PREVIOUS ESTIMATE

On May 15, 2003, CBO transmitted a cost estimate for H.R. 21, as reported by the House Committee on Financial Services on March 27, 2003. The two versions of the bill are similar, and the cost estimates are identical.

Both versions of the bill contain identical private-sector mandates, for which CBO estimates that the total direct costs would fall well below the annual threshold for private-sector mandates established in UMRA.

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